

# A GUIDE TO PREPARING AND SUBMITTING COMPANY ACCOUNTS TO COMPANIES HOUSE

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## Introduction

All businesses must keep accounting records for tax purposes, but if you operate your business as a limited company, you must also prepare and submit a set of statutory accounts to Companies House every year. Your accountant usually carries out this work for you, but you are still ultimately responsible so you should be aware of what the law requires you to do.

The Companies Act 2006 (the Act) is now the predominant legislation relating to company accounts and largely replaces the Companies Acts 1985 and 1989. See BIF 459 An Introduction to the Companies Act 2006.

This factsheet focuses on the accounting requirements for small companies. It explains when you need to submit your accounts, what you will be required to submit and whether you will qualify for any of the exemptions that will allow you to submit less detailed information. It also explains the penalties involved for late filing of accounts and new offences which the Act introduces.

## A company's accounting and reporting requirements

All limited companies, regardless of their size and whether they are trading or not, must prepare annual accounts that report on their trading activity during the year. The directors of the company are responsible for keeping adequate accounting records and producing the accounts. The accounting records should:

- Show and explain the company's transactions and allow the company's financial position to be reasonably assessed at any point in time.
- Provide details of all money received and paid on a day-to-day basis.
- Record the assets and liabilities of the company.
- Allow the company to keep appropriate records that account for stock.

To achieve this most company's use accounting software to record their transactions and keep copies of bank statements, sales invoices, purchase invoices, payroll records and VAT returns.

Annual accounts are required to provide information for two main purposes:

- To inform members (or shareholders) of the company's financial performance and status.
- To appear on the public record at Company's House.

In addition to these requirements a company's accounts will also be reviewed and used by its bankers, finance providers, suppliers and HM Revenue & Customs (HMRC), who oversee and regulate the tax systems.

A company is required to submit audited accounts unless it qualifies for audit exemption and wishes to take advantage of this provision (see below for further details on this).

## What is the auditor's role?

Audited accounts can only be produced by a currently qualified auditor, for example an accountant with a current audit-practising certificate. These qualifications are subject to strict regulation by the professional accounting bodies, such as the Institute of Chartered Accountants for England and Wales (ICAEW, [www.icaew.com/index.cfm?route=155206](http://www.icaew.com/index.cfm?route=155206)). The auditor must also be independent and therefore cannot be an officer or employee of the company or an associated company.

The company's management accounts will be the starting point for the preparation of its annual accounts. The auditor will then review and compare this information against your accounting records and make any amendments or adjustments necessary to your management accounts as a result of this. Your auditor will also review the financial controls used by your company and identify any failings, such as insufficient accounting records being kept.

Your accounts will then be presented in a format that corresponds to standards stated in the Act and relevant accounting standards. The auditor must make an independent report to the company's members stating that its accounts have been properly prepared in accordance with the Act. The report must also say if a company's accounts give a 'true and fair' view of the profit and loss account for the period and balance sheet as at the period end and whether the information given in the directors' report is consistent with the annual accounts.

If the auditor has not been able to obtain all the information and explanations from the directors that they considered necessary to complete their audit then they must state this. The Act creates a new criminal offence applicable to the directors, officers or employees, who 'knowingly or recklessly' provide misleading information.

The company's auditors are initially appointed by the board of directors and then their appointment is deemed to continue until new auditors are appointed, or an audit is no longer required. However, shareholders may still give notice to the company preventing deemed re-appointment or a company's Articles of Association may also continue to require annual reappointment.

## Small company audit exemptions

Your company may be exempt from having its accounts audited under the Companies Act 2006 (Amendment) (Accounts and Reports) Regulations 2008. See [www.uk-legislation.hmso.gov.uk/si/si2008/uksi\\_20080393\\_en\\_1](http://www.uk-legislation.hmso.gov.uk/si/si2008/uksi_20080393_en_1) for more information.

This gives an exemption from audit for eligible small companies subject to this decision being formally recorded by the company. Rather than audited accounts the directors can produce unaudited financial statements, which are subject to less testing and checks than audited accounts and which have a lower associated cost.

To be eligible for such exemption a company must have:

- A turnover of less than £6.5 million.
- A balance sheet total of less than £3.26 million.

Certain small companies are ineligible even if they satisfy the financial criteria listed above. In particular all public companies, those involved

in insurance and other similarly regulated financial trading, and also if the company is part of a group which is itself ineligible, are specifically excluded.

Even if a small company qualifies for audit exemption it may still be required to have an audit if this is:

- Stipulated in its Articles of Association.
- Requested by shareholders owning at least 10% of the company's share.
- A requirement of any funding agreement a company may have with its bankers or other lenders.

## The periods covered by accounts

The period reported on in your accounts is called the financial year. This starts on the day of incorporation for a new company, or on the day after the previous financial year ended for an existing company. A more precise term for a financial year is an accounting reference period (ARP). The ARP ends on the accounting reference date (ARD), which is the company's financial year-end.

For all new companies, the first financial year-end is automatically set as the first anniversary of the last day in the month in which the company was incorporated. For example, if your company was incorporated on 15 September 2008, its ARD would be set at 30 September. The first accounts submitted would cover a period from 15 September 2008 to 30 September 2009. Although your ARD is set on incorporation, you can change it by completing Form AA01 and sending it to Companies House. To access this form see [www.companieshouse.gov.uk/forms/generalForms/AA01\\_change\\_of\\_accounting\\_reference\\_date.pdf](http://www.companieshouse.gov.uk/forms/generalForms/AA01_change_of_accounting_reference_date.pdf).

## What must your accounts include?

Generally, your financial accounts must include:

- A profit and loss account.
- A balance sheet signed by a director.
- A signed auditor's or accountant's report.
- A directors' report signed by a director or the company secretary.
- Explanatory notes to the accounts.
- Cash flow statement (if appropriate).
- Group accounts (if appropriate).

The Act has introduced the requirement for all companies (except qualifying small companies as defined later) to include a business review with the directors' report in their annual accounts. A business review is a report that provides information necessary for an understanding of the performance and position of the company's business and future development.

## Filing accounts at Companies House

All Private Limited and Public Limited Companies (PLCs) must send their accounts to the Registrar at Companies House.

If you are filing your company's first accounts and they cover a period of more than 12 months, they must be delivered to the Registrar within 21 months of the date of incorporation for private companies.

For subsequent accounts, the time normally allowed for delivering accounts to Companies House is:

- For a private company, nine months from the ARD.
- For a PLC, six months from the ARD.

All accounts submitted to Companies House are scanned for electronic storage, and are available as a matter of public record. Documents should be A4 in size, with black text printed on white paper.

Accounts need to be approved by the directors before they are submitted to Companies House.

## Submitting abbreviated accounts

If your company qualifies as a small company it may be able to prepare and deliver abbreviated accounts to Companies House. To qualify as a small company your company must satisfy two of the following criteria:

- A turnover of less than £6.5 million.
- A balance sheet total of less than £3.26 million.
- It employs on average less than 50 staff.

Abbreviated accounts may be prepared for qualifying companies who are submitting either audited accounts or unaudited financial statements. The accounts will only need to include:

- A simplified balance sheet signed by a director.
- Notes only explaining the figures given in the balance sheet.
- A special auditor's report, unless you are also claiming audit exemption.

Submitting abbreviated accounts has the advantage that less financial information is disclosed on the public record. In particular, no details relating to the company's annual turnover or profits (or losses) are reported.

## Group accounts

If a company owns another company it may have to file group accounts, which comprise a consolidated profit and loss account and balance sheet for both companies and the balance sheet of the parent company. A qualifying small company has an option to prepare group accounts, providing the group as a whole qualifies as a small company. Companies, not qualifying as small ones, are required to prepare group accounts as well as individual accounts for each company in the group.

## Dormant companies

A company is classed as 'dormant' if it has no 'significant accounting transactions' during its ARP. If your company has not traded since incorporation, you should complete and submit form AA02, which is available from Companies House, as your record of annual accounts filing. To access this form see [www.companieshouse.gov.uk/forms/generalForms/AA02\\_post\\_october\\_dormant\\_company\\_accounts\\_dca.pdf](http://www.companieshouse.gov.uk/forms/generalForms/AA02_post_october_dormant_company_accounts_dca.pdf).

If your company has become dormant after trading, you only need to file simplified accounts. These accounts need not include a profit and loss account or a directors' report, but need to include a balance sheet and associated notes.

If you manage a company that you think may be classed as dormant, you should discuss your specific circumstances with your accountant.

## What are the penalties when accounts are delivered late?

There is an automatic penalty for late filing a company's accounts, with the amount depending on how late the accounts arrive at Companies House.

The penalties that apply for private companies are as follows:

Length of delay	Penalty
3 months or less	£150
3-6 months	£375
6-12 months	£750
More than 12 months	£1,500

Failing to deliver accounts on time is also a criminal offence for which company directors may be prosecuted. This may lead to fines being imposed on them by the criminal courts and also to the company being struck off the public record.

## Circulating accounts to members

All shareholders of a company are entitled to receive a copy of the company's annual accounts. Under the Act there is no longer a requirement for a private company to hold an annual general meeting (AGM), which is when the accounts were traditionally laid before members, although an AGM may still be held by some companies, specifically if required by their Articles of Association. You must now ensure that the accounts are sent to members within nine months from the company's financial year end, or if earlier, the date on which the accounts are filed at Companies House.

## How does the law apply to Northern Ireland?

The Act provides a single company law framework for the whole of the UK, with the same legislation applying to all companies, wherever they are based once it is implemented in full.

From October 2009 the Companies Registry NI will integrate with Companies House and will be the place where accounts from Northern Irish companies are filed. However, as company law is a 'transferred matter' the law relating to Northern Ireland can be repealed or amended separately by the elected assembly at any time in the future.

## Hints and tips

- Banks and credit companies rely on information available from Companies House to assess a company's creditworthiness, and often require the reassurance of an independent audit. If your company qualifies for audit exemption, you will need to decide whether unaudited accounts are appropriate to your circumstances.
- The directors of a company are legally responsible for ensuring the accuracy of its accounts. Using an accountant does not remove that responsibility.
- Filing abbreviated accounts cuts costs and saves time - check whether your business is eligible.
- From April 2008 the Act allows liability limitation agreements to be entered into between all companies and their auditors, subject to member approval.
- Avoid late filing penalties - plan ahead to ensure that you allow enough time for the accounts to be properly prepared and approved by directors. Ideally you should allow two to three months for the whole process.

## Further information

For practical start up and small business tips, ideas, know-how and news, go to:

Website: [www.enterprisequest.com](http://www.enterprisequest.com)

To access hundreds of practical factsheets, market reports and small business guides, go to:

Website: [www.scavenger.net](http://www.scavenger.net)

- BIF 7 A Guide to Understanding Balance Sheets  
BIF 8 A Guide to Understanding Profit and Loss Accounts  
BIF 23 A Guide to the Duties of a Company Secretary  
BIF 25 A Guide to the Duties of a Director

- BIF 32 Choosing the Right Legal Status for your Business  
BIF 38 Choosing and Using an Accountant  
BIF 167 A Guide to Setting up a Business as a Private Limited Company  
BIF 196 Glossary of Company Law Terminology  
BIF 459 An Introduction to the Companies Act 2006

## Useful contacts

Companies House provides registration and filing services, as well as useful leaflets and information.

Crown Way  
Maindy  
Cardiff  
CF14 3UZ  
Tel: 030 3123 4500  
Website: [www.companies-house.gov.uk](http://www.companies-house.gov.uk)

The Institute of Chartered Accountants in England and Wales (ICAEW) is the largest professional accountancy body in Europe. Its qualification is recognised around the world.

Chartered Accountants' Hall  
PO Box 433  
London  
EC2P 2BJ  
Tel: (020) 7920 8100  
Website: [www.icaew.co.uk](http://www.icaew.co.uk)

Institute of Chartered Accountants of Scotland (ICAS)

CA House  
21 Haymarket Yards  
Edinburgh  
EH12 5BH  
Tel: (0131) 347 0100  
Website: [www.icas.org.uk](http://www.icas.org.uk)

Institute of Chartered Accountants in Ireland (ICAI)

The Linenhall  
32-38 Linenhall Street  
Belfast  
BT2 8BG  
Tel: (028) 9032 1600  
Website: [www.icaei.ie](http://www.icaei.ie)

The Association of Chartered Certified Accountants (ACCA) offers training for members and comments publicly on a wide range of business, financial and regulatory issues.

29 Lincoln's Inn Fields  
London  
WC2A 3EE  
Tel: (020) 7059 5000  
Website: [www.acca.org.uk](http://www.acca.org.uk)

The Auditing Practices Board (APB) is part of the Financial Reporting Council (FRC) and oversees auditing practice in the UK.

5th Floor  
Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN  
Tel: (020) 7492 2300  
Website: [www.frc.co.uk/apb](http://www.frc.co.uk/apb)

**CONTACT-**

**for further information.**

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